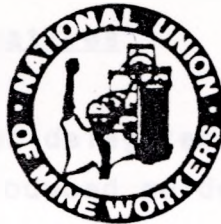


## National Union of Mineworkers



## ASSESSMENT OF THE PROFIT SHARING SCHEMES ON CERTAIN CHAMBER GOLD MINES, JULY- DECEMBER 1992

### Introduction

In 1991 and 1992, the NUM accepted basic wage increases on the gold mines that were far below the annual inflation rate because of the crisis in the industry. The priority of the union was to preserve employment.

But this left the door wide open for rich mines (like Kloof, Elandsrand and Vaal Reefs) to hide behind the low increases that are set in the Chamber negotiations at levels that Freegold, Buffelsfontein and marginal mines can live with.

*The NUM decided that workers need a way of adding more money onto their wages if the mines can afford to pay more.*

The ideal is for a national wage policy in which the richer mines can help the poorer mines to pay the same wages. But this will mean new tax laws, new ownership rules and a new government to force it all through.

Right now, the union needs a special policy for collective bargaining in an industry that is in long term decline. The economy is not growing, few new mines are opening, so workers who get retrenched are threatened with starvation. NUM has already accepted a reduction in real wage standards to slow down the speed at which mines are contracting.

This leads to two separate, but related questions:

1. At what point should the NUM stick in its heels and demand that the buying power of wages is preserved? [In 1993, this would mean a 12% increase just to fight inflation and stop the erosion of the buying power of basic wages.]
2. How can the NUM make sure that mines that can afford to pay more money to workers do so?

The first question is not addressed in this assessment. The focus here is on the second question.

### The Performance Bonus Scheme and Its Rejection

In 1991, the NUM agreed to two mechanisms that might supplement basic wages with four mining houses. There was a Gold Price Bonus which provided for a payment of up to 7% of basic wages, should the gold price rise above a certain level. A Performance Bonus Scheme, based on meeting targets to improve on the cost per kilogram of gold produced, paid out monthly amounts that varied from zero to over 25% on basic wages. The gold price never reached close to the bonus levels, however, and many mines acted in bad faith in the Performance Bonus Schemes. They increased their productivity and profits, manipulated targets and failed to pass on a fair share of the benefits to workers.

The Performance Bonus System was debated and rejected at the meeting of the NUM Central Committee in January 1992.

The 1992 Central Committee re-affirmed the NUM wage policy and stated that bonus schemes play absolutely no role in the wage philosophy of the NUM. The NUM policy is a living basic wage for all mineworkers.

But the 1992 Central Committee recognised that there are severe problems in applying the wage policy strictly in the gold mines at present. The Central Committee directed the NUM Collective Bargaining Department to organise a workshop to come up with an alternative to the performance bonus on the gold mines.

## The 1992 Workshop on Alternatives

In April 1992, 22 worker delegates and 18 full time officials attended a workshop that produced guidelines for a new strategy. This was presented to the NUM National Executive Committee (NEC) and there were then report backs in all the affected regions.

The recommendation was to demand profit sharing on all the gold mines, whether sick or healthy. When mines make a profit, they should share some of the profit directly with the workers.

## The 1992 negotiations on profit sharing

It took six negotiating meetings before the Chamber of Mines agreed to discuss the new NUM proposal of profit sharing. In 1991, one of the problems with the performance bonus scheme was that it was formulated in a tiny "working party" of only five people. In 1992, discussions were conducted in a forum in which all affected mines were represented and which NUM officials from the relevant regions attended. And regular reports were given to the full negotiating team, to the NEC and to the regions.

Over 100 pages of reports were distributed during the negotiations. Report backs were difficult to manage because the issues were often very complicated.

## Results of the negotiations

### 1. *Mines that are excluded from profit sharing*

Gold Fields and Anglovaal refused to share their profits at all. Instead they gave an extra basic wage increase of 1%. JCI's Sir Albert Robinson Hospital forced NUM to accept a continuation of the Performance Bonus Scheme. This is because the hospital is part of Randfontein Estates where NUM is not recognised and the white unions like the performance bonus. St Helena and Grootvlei are making very little profit. The negotiating team accepted an extra 1,5% basic increase at these mines, with no profit share.

## 2. The Chamber Agreement

The NUM has signed an agreement with the Chamber of Mines that sets a framework for the profit sharing schemes at individual mines. This includes certain rules and guarantees and it defines how the profit share that goes to the workers is distributed between the workers. All profit sharing schemes accept the following principles:

- 2.1. the right of the NUM to negotiate a fair wage structure at industry level;
- 2.2. Security of employment - a guarantee that no worker will be retrenched or downgraded because of the profit sharing scheme
- 2.3. Improvements in health and safety measures - better efficiencies must not be achieved at the expense of more accidents.
- 2.4. Full disclosure of information to workers and the union to monitor the scheme
- 2.5. Worker participation in setting targets, monitoring the scheme and in the promotion of better efficiency.
- 2.6. No race or gender discrimination
- 2.7. A commitment to training - training is critical for a long term improvement in the viability of the mines. All mines must specifically investigate how better training can lead to better efficiency.
- 2.8. A fair distribution of gains between workers - at least the first R25 or 25% of money available for distribution in any performance bonus scheme, will be shared equally amongst the workforce. Any additional amount will be shared in proportion to basic earnings.

## The Steps in Profit Sharing

### 1 PROFIT GENERATION

REVENUE (money from sales)  
minus COSTS (wages, stores ..)  
-----  
equals PROFIT (surplus)  
-----

### 2 PROFIT DIVISION

Normally, the surplus is divided three ways:

- \* Capex - capital expenditure. a re-investment by the mine owners to keep the mine going
- \* Tax - paid to the government
- \* Dividends and royalties - cash given to the mine owners

But under profit sharing, the surplus is divided four ways:

- \* CAPEX
- \* TAX
- \* DIVIDENDS & ROYALTIES
- \* PROFIT SHARE POOL - the cash given to workers

The profit sharing agreements cover how the size of the profit share pool is calculated

### 3 PROFIT POOL DISTRIBUTION

Once the amount of surplus for workers is decided, we then have to decide how to distribute the workers' "profit share pool" between them all.

## DISTRIBUTION:

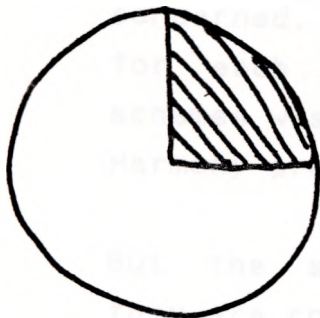
Rule 2.8 in the Chamber agreement spells out how the profit pool is distributed between the workers.

## Profit Pool Sizes

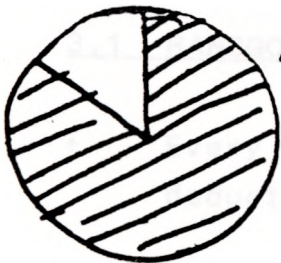
The rules of each scheme determine the size of the "profit pool" that is to be distributed amongst the workers.



If the pool is small, all workers will share equally in the whole profit pool. The profit share will be, say, R19.74 per month, like at Blyvoor in December 1992



If the pool is very big, one quarter of the pool is shared equally between the workers. The remainder is shared according to salary, as a percentage of the basic wage. The profit share will be, say R116 per month, *plus* 14,2% of the monthly basic wage, as at Elandsrand in December 1992.



If the pool is medium sized, all workers will get R25 per month. Any money that is left over after paying the equal share will be shared according to salary, as a percentage of the basic wage. The profit share will be R25 *plus* 2,06% of the monthly basic wage, as at Western Deep Levels in December 1992.

So the profit share will always be distributed as:



an equal rand amount

*plus* [if the profit pool is medium sized or very big]



a percentage on basic earnings.

The mines will deduct capital expenditure from the profit before it is shared. This is money that the owners re-invest in the mine.

But the details of the profit sharing schemes were then negotiated, comprehensively, in three separate forums - one for Anglo American, one for Blyvoor and one for Gengold.

### 3. *The Group-Level Agreements*

These negotiations were tough and drawn out. Initially, the employers did not want to share profits with workers until they had taken enough profits for their shareholders first!

- \* In all the schemes, profits are shared from the first rand. Whenever a profit is made, however small it may be, part of it goes to the workers.
- \* All the schemes apply right across the mining house concerned. The employers first wanted special negotiations for each mine, but a uniform group approach for all the schemes was agreed to. [Except for Randgold - because the Harmony profit sharing scheme was negotiated in 1991].

But the schemes do differ between the mining houses - and they are complicated, some more so than others.

#### 3.1 RANDGOLD - SIMPLE SCHEMES FOR HARMONY AND BLYVOOR

- + Every month, the mines calculate the total profit and deduct capital expenditure.
- + From what is left, the mines take 20 cents from every rand and put it into the profit pool for workers.
- + The pool has a maximum size.

Blyvoor will stop sharing profits when the pool is equal to 20% of the total wage bill on the mine.

Harmony will stop sharing profits when the pool has R4 million in it - this is about 29% of the basic wage bill. At Harmony, the first R1 million of the profit is shared equally between workers. This works out to a maximum "equal rand share" of R80 per worker.

### 3.2 ANGLO AMERICAN - TWO STAGE SHARING

+ Every 3 months, the mines calculate the total profit and deduct capital expenditure.

+ What is left is divided into two parts:

Part 1 is money up to a "trigger" level - at Western Deep Levels this is R21,4 million per quarter. The mines take 5 cents from every rand of profit below the trigger level and put it into the profit pool for workers at each mine.

Part 2 is money above this "trigger" level. If the profit of a mine is more than the trigger level, the mine now takes 20 cents from every rand of this extra profit and puts it into the profit pool for workers.

So the profit pool is first fed by a weak stream, it is just a trickle in fact; but when the trigger level is reached, the stream becomes four time stronger!

+ The pool has a maximum size. The Anglo mines stop putting money into the workers' profit pool when it is equal to 25% of the wage bill of the mine.

+ Trigger profit levels for Anglo Mines

<i>Mine</i>	<i>Trigger Level</i>
Vaal Reefs	R51,7 million
Freegold	R69,2 million
Western Deep	R21,4 million
Elandsrand	R10,9 million



### 3.3 GENGOLD - TWO STAGE SHARING AFTER TAX + R2. BLACKS ONLY

+ Every 3 months, the mines calculate the total profit and deduct capital expenditure AND tax paid to the government.

+ What is left is divided into two parts:

Part 1 is money up to a "trigger" level - this is the average profit for the preceding 4 quarters. The mines take 5 cents from every rand of profit below the trigger level and put it into a profit pool.

Part 2 is money above this "trigger" level. If the profit of a mine is more than the trigger level, the mine now takes 20 cents from every rand of this extra profit and puts it into the profit pool.

+ Now this combined pool is itself divided into two. Gengold only pays the profit share to black workers in categories 1 to 8 - so about two thirds of the pool is set aside to pay to "participating workers". The remainder, equal to the proportion of white wages in the total wage bill, is kept by the mine. Whites do not share in profits directly - they accepted a 1,5% increase in basic wages.

+ The pool has a maximum size. The Gengold mines stop putting money into the workers' profit pool when it is equal to 15% of the wage bill of the mine.

+ When mines pay profit shares, Gengold adds on an extra R2 per month.

+ Gengold's participating mines:

Marievale	Unisel
Kinross	Beatrix
Winkelhaak	Bracken
Buffelsfontein	Leslie
Stilfontein	

Table 1: Basic Results: PROFIT SHARING - JULY TO DECEMBER 1992

This table shows the total "equal rand shares" paid out in the six months from July to December 1992 [column 1] and the size of the shares (if any) paid out as a percentage of basic pay [column 2].

PAY-OUT FORMULAE

<i>Mine</i>	<i>Period [months]</i>	<i>Equal rand share</i>	<i>Equal % share of period basic pay</i>
<u>Column 1 PLUS Column 2</u>			
<u>Anglo American</u>			
Vaal Reefs	6	R126	0.26%
Freegold	6	R104	0.75%
Western Deep	6	R96	1.03%
Elandsrand	6	R348	9.60%
<u>Randaold</u>			
Blyvoor	6	R70	0.13%
Harmony	6	R146	0.08%
<u>JCI [Performance Bonus]</u>			
Sir Albert Rob.	6	R150	4.17%
<u>Gengold</u>			
Marievale*	6	R111	5.86%
Kinross	6	R112	0.00%
Winkelhaak	6	R112	0.22%
Buffels	6	R155	0.45%
Stilfontein*	6	R202	5.10%
Unisel	6	R148	1.25%
Beatrix	6	R111	0.46%
Bracken	6	R150	8.05%
Leslie	6	R150	0.55%

Table 2: Range of Rand Payouts: PROFIT SHARING - JUL TO DEC 1992

This table shows the range of total rand payouts to workers who were employed for the entire six months from June to December 1992. This is one way of comparing the results between mines.

Mine	Period [months]	Column 1	Column 2	Column 3
		Minimum rate	Grade 4 underground	Maximum rate
<u>Anglo American</u>				
Vaal Reefs	6	R135	R139	R150
Freegold	6	R129	R144	R173
Western Deep	6	R130	R151	R191
Elandsrand	6	R666	R856	R1,236
=====				
<u>Randgold</u>				
Blyvoor	6	R74	R76	R81
Harmony	6	R148	R150	R153
=====				
<u>JCI [Performance Bonus]</u>				
Sir Albert Rob.	6	R280	NA	R490
=====				
<u>Gengold</u>				
Marievale*	6	R288	R401	R677
Kinross	6	R112	R112	R112
Winkelhaak	6	R119	R123	R134
Buffels	6	R168	R177	R198
Stilfontein*	6	R346	R442	R671
Unisel	6	R186	R210	R269
Beatrix	6	R125	R133	R155
Bracken	6	R422	R559	R933
Leslie	6	R169	R178	R204
=====				

An explanation of an example from the table:

Column 2 in Table 2 shows the total cash profit share paid out to a grade 4 underground worker at each mine for the whole six month period from July to December. This is a good indicator of the average payout to NUM members.

In the case of Vaal Reefs, for example:

In the September 1992 quarter, Vaal Reefs paid an equal rand share of R51.00. There was no percentage share because the pool was too small.

In the December 1992 quarter, Vaal Reefs paid out an equal rand share of R75 plus 0,52% of the basic salary of each worker for the quarter. The minimum rate for a Grade 4 Underground worker at Vaal Reefs is R837 per month. That is R2511 for the three months that make up a quarter. 0,52% of R2511 is R13.05, so the full payment for the quarter is R75 plus R13.05. That is R88.05.

So together, in the two quarters, a grade 4 underground worker got at least R139.05 - R51.00 plus R88.05.

This is the figure next to Vaal Reefs in Table 2!

(The payout formula for the full six month period is given in Table 1)

The other columns in Table 2 show the lowest and the highest payouts at each mine. Column 1 shows the payout for the minimum wage at each mine. Column 3 shows the payout for Grade 8 underground (non-staff) or the maximum wage in the bargaining unit at Sir Albert Robinson Hospital.

Note: Payment periods

At Blyvoor, Harmony and Sir Albert Robinson, the payments are made *monthly*. At all the other mines payments are *quarterly*. There was one payout for the September quarter (paid in November or December, depending on the Group) and another payout in January 1993 for the December quarter. Future payouts will be made in April and July 1993

#### 4. Assessments of the Profit Sharing Schemes

##### 4.1 Comparison with mines that did not implement profit sharing

St Helena and Grootvlei accepted a 1,5% increase, rather than the profit sharing scheme (because profit payouts in the September quarter would have been below this 1,5% level). Over 6 months, grade 4 underground for example, got R72 more in basic wages than on other Gengold mines.

Gold Fields and Anglovaal refused to implement a bonus scheme in 1991 or to share profits in 1992. Instead they gave an extra 1% basic wage increase in each of the last two years. Over 6 months in 1992, grade 4 underground for example, got R100 more in basic wages because of this extra 2% increase at Gold Fields and R99 at Harties.

We can compare these results with Table 2 to see whether the profit sharing achieved better or worse results than the extra basic wages:

Table 3: Additional increases at non-profit-sharing mines, Jul-Dec 92

Mine	Period [months]	RANGE OF ADDITIONAL BASIC WAGES		
		Minimum rate	Grade 4 underground	Maximum rate
St Helena [BW]	6	R48	R72	R138
Grootvlei [BW]	6	R48	R72	R138
Gold Fields[BW]	6	R50	R100	R171
Harties [BW]	6	R57	R99	R183

Table 4 and Figure 1 on the next page show that, in most cases, the profit sharing schemes provided more extra money than the additional increases in the basic wages given by Gold Fields and Anglovaal. All Gengold workers on profit sharing schemes got more than the 1,5% extra basic increase that was given at Grootvlei and St Helena, except for the top grades at Winkelhaak and Kinross.

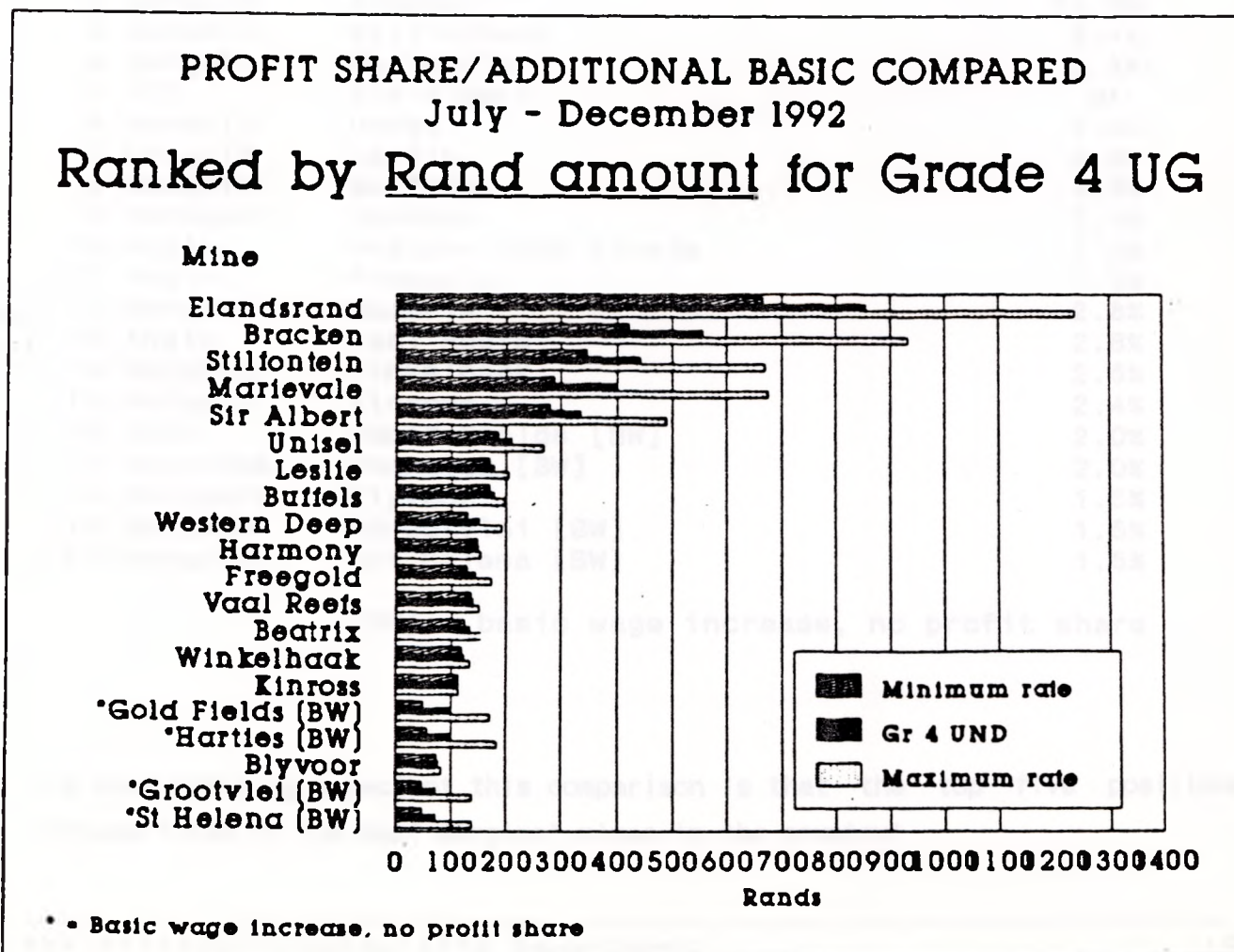
Table 4: Profit Sharing / Additional Basic wage summary, Jul-Dec 1993

[Ordered by the Grade 4 underground amount, from the highest (Elandsrand) to the lowest (Grootvlei/St Helena) ]

Group	Mine	RANGE OF PROFIT SHARE AMOUNTS		
		Minimum rate	Grade 4 underground	Maximum rate
Anglo	Elandsrand	R866	R856	R1 236
Gengold	Bracken	R422	R559	R933
Gengold	Stilfontein	R346	R442	R671
Gengold	Marievale	R288	R401	R677
JCI	Sir Albert	R280	R334	R490
Gengold	Unisel	R186	R210	R269
Gengold	Leslie	R169	R178	R204
Gengold	Buffels	R168	R177	R198
Anglo	Western Deep Levels	R130	R151	R191
Randgold	Harmony	R148	R150	R153
Anglo	Freegold	R129	R144	R173
Anglo	Vaal Reefs	R135	R140	R150
Gengold	Beatrix	R125	R133	R155
Gengold	Winkelhaak	R119	R123	R134
Gengold	Kinross	R112	R112	R112
GFSA	*Gold Fields [BW]	R50	R100	R171
Anglovaal	*Harties [BW]	R57	R99	R183
Randgold	Blyvoor	R74	R76	R81
Gengold	*Grootvlei [BW]	R48	R72	R138
Gengold	*St Helena [BW]	R48	R72	R138

[BW] = basic wage increase, no profit share

Figure 1



#### 4.2 Comparison in percentage terms

After half a year of the profit sharing schemes, we can calculate the amount of extra money workers have got. (See Table 2).

Let us compare the monthly average profit share payout in the last six months of 1992, with the average basic monthly wages in 1991.

This is done most easily by calculating what percentage the profit share is of the 1991 basic wage.

These figures are given in *Table 5* for Grade 4 underground.

*Table 5: Profit Sharing / Additional Basic wage summary, Jul-Dec 1993*

[Ordered by the Grade 4 underground percentage difference, from the highest to the lowest]

Rank	Group	Mine	RANGE OF PROFIT SHARE AMOUNTS (% of 1991 wage) Grade 4 underground
1	Anglo	Elandsrand	17.0%
2	Gengold	Bracken	11.9%
3	Gengold	Stilfontein	9.4%
4	Gengold	Marievale	8.5%
5	JCI	Sir Albert	NA
6	Gengold	Unisel	4.5%
7	Gengold	Leslie	3.8%
8	Gengold	Buffels	3.8%
9	Randgold	Harmony	3.3%
10	Anglo	Western Deep Levels	3.0%
11	Anglo	Freegold	2.9%
12	Gengold	Beatrix	2.8%
13	Anglo	Vaal Reefs	2.8%
14	Gengold	Winkelhaak	2.6%
15	Gengold	Kinross	2.4%
16	GFSA	*Gold Fields [BW]	2.0%
17	Anglovaal	*Harties [BW]	2.0%
18	Randgold	Blyvoor	1.6%
19	Gengold	*Grootvlei [BW]	1.5%
20	Gengold	*St Helena [BW]	1.5%

[BW] = basic wage increase, no profit share

The most striking aspect of this comparison is that the top five positions include three of the most marginal mines in the country!

### 4.3 Overall Assessment of the Profit Sharing Schemes

#### *GOOD POINTS / SUCCESSES*

1. Profit sharing schemes did provide a few extra rands for our members, as was their aim.
2. The profit sharing schemes, in their first six months, provided better returns than the two 1% extra basic wage increases given by Gold Fields and Anglovaal in 92 and 93
3. Profit sharing provides some flexibility to take account of the special conditions at individual mines. It can get members more money, while it preserves centralised bargaining and a "platform" of basic wages in the industry.

#### *BAD POINTS / PROBLEMS*

1. Education around the profit sharing schemes has not been sufficient. They are very hard to understand and this is creating a lot of confusion still.
2. The payouts vary enormously between mines, both in rands and percentage terms. Workers who do the same job, but under different companies don't get the same profit shares.
3. The payouts vary from time to time. Workers cannot count on that extra money until they have it.

#### *SURPRISES*

1. Some of the worst mines, like Marlevale, Stilfontein and Bracken, paid the best profit share amounts
2. Some good, solid mines with long lives, paid very little indeed. (In general the wealthy Anglo mines paid a much less generous profit share than the struggling Gengold mines!)
3. The JCI performance bonus scheme at Randfontein has paid out bonuses every single month, at one of the highest rates.



## The way forward

The 1993 Central Committee considered numerous problems that have accompanied the introduction of the profit sharing schemes. These include the lack of shaft-steward education and poor monitoring arrangements; attempts by employers to use the profit sharing schemes to confuse and divide workers; and worker suspicion of a scheme that is favoured by management. It was agreed that all these problems, while they merit urgent attention, are side-effects of the way profit sharing is implemented. None stand in the way of NUM using profit sharing as a strategy in the gold industry while it is in a down-scaling phase.

The following steps were agreed upon:

1. The NUM will demand the extension of the profit sharing schemes to all gold mines, including Anglovaal and Gold Fields.
2. The NUM will demand that the existing profit sharing schemes continue to operate - the profits mines make in the next 2 years are directly the result of the sacrifices of our members over the last two years. The members must share part of the profits.
3. The NUM will seek to negotiate improvements in existing profit sharing schemes: - eliminate the "trigger levels"; eliminate the "caps" that stop profits being shared above a particular level.
4. Most important: The NUM will put more resources into training shaft stewards at mine level to understand and monitor the profit sharing schemes. The mines must also allow time off for specialised training for shaft stewards who are charged with the task of monitoring the schemes. The profit sharing schemes are complicated, but so is the world we live in. To get the maximum benefit from the schemes, the NUM needs to develop skills at mine level.
6. Beyond profit sharing  
Profit sharing is a useful strategy to deal with the pressing problems that workers on mines face now. It preserves centralised bargaining, it allows flexibility in payments to workers to take account of the problems of particular mines and it also promotes the workers' interest in increasing mine profits. But measures to enhance efficiency and

performance at the mine level will not solve the structural crisis in the gold mining industry. At best, they can provide a breathing space.

The NUM is committed to negotiating and working towards a re-structured mining industry that combines long-term economic viability with the humane treatment of all its workers. This will involve effective state intervention in the mining industry to regulate the down-scaling process. The NUM needs to step up its initiatives in the mining summit, with the present government and with the ANC and COSATU, to secure a coherent, pro-worker mining policy for the new South Africa.

But a re-structured mining industry will also need to provide a proper role for trade unions and for workers in decision making.

Profit sharing schemes have opened up access to information. They have the potential to create a basis for extending, first participation and then control within the work environment. The monitoring of profit sharing schemes can be used to develop a deeper understanding in members of how things work on the mines.

Understanding is the first condition for effective participation. The NUM will investigate further demands for participation - such as directors on the management boards of companies, for example. And if workers, through profit sharing, get a share of the surplus like the shareholders, should they not also get ownership rights in the mines?

### Summary

The 1993 Central Committee endorsed a four-pronged medium term strategy for the gold sector that includes profit sharing as a major element:

- \* Fair basic wage increases in line with the NUM Wage Policy.
- \* Profit sharing schemes improved and extended to all gold mines.
- \* Political moves: State intervention; summit; Alliance policy.
- \* New initiatives to empower workers and unions in the workplace.